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Implementation of the proposals for action of the Intergovernmental Panel on Forests/Intergovernmental Forum on Forests and the plan of action of the United Nations Forum on Forests: progress in implementation

Economic aspects of forests

Report of the Secretary-General

Summary

The present report has been prepared in response to United Nations Forum on Forests resolution 1/1 on the multi-year programme of work of the Forum for 2001-2005 according to which the Forum at its third session would consider economic aspects of forests. The report assesses the status of implementation of the Intergovernmental Panel on Forests/Intergovernmental Forum on Forests (IPF/IFF) proposals for action related to the economic aspects of forests, and highlights the future challenges and key areas that the Forum may wish to consider in respect of accelerating progress in achieving sustainable forest management.

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Introduction

1. According to the multi-year programme of work of the United Nations Forum on Forests, the third session of the Forum would review the implementation of the proposals for action of the Intergovernmental Panel on Forests (IPF) and Intergovernmental Forum on Forests (IFF) that are related to economic aspects of forests.[1] The present report assesses progress in the implementation of IPF/IFF proposals for action relevant to economic aspects of forests and highlights emerging challenges needing the attention of the Forum.

2. This report was prepared by the World Bank, in consultation with other member organizations of the Collaborative Partnership on Forests, to facilitate discussions at the Forum's third session. The report draws upon various sources of information including voluntary national reports submitted to the Forum at its second and third sessions, findings from country- and organization-led initiatives, information provided by Partnership members, reports and policy briefs produced by multilateral development and technical assistance agencies and bilateral donors, and scientific and policy-related literature.

I. Background and approach

3. Forests provide numerous goods and services, both market and non-market, that have significant economic importance. Wood and non-wood raw products extracted from forests, and their strong forward linkages to processing industries are significant elements of economic growth, income and employment in many countries, both developed and developing. It has been estimated that 25 per cent of the world's population depends to varying degrees on forests for their livelihood. About 500 million people living in or near dense forest — most of them poor — depend crucially on forests for their subsistence and livelihood. Services provided by forests range from conservation of biodiversity and soil to climate control, and from watershed protection to preservation of spiritual and religious values. These non-market values of forests, some of which are global in scope, affect our everyday life and are increasingly appreciated and estimated.

4. The balance between production and conservation, the distribution of the benefits and responsibilities of forest use and protection among the various stakeholders, and the longer-term issues of forest sustainability and environmental health are, despite their crucial importance, often not being managed in the most effective way possible. Managing the social, economic and ecological trade-offs is technically difficult, and politically complex; and recognizing some basic realities about what is going on in forests is critical to beginning a process of sustainable forest management.

The four realities for forests in the twenty-first century

5. First, protection and productive use of forests must be pursued as complementary — not conflicting — activities. Natural forests of high commercial value will continue to be important for production, employment and generation of tax revenues, and the objective must be to ensure that they are used in a manner that sustains significant economic, environmental and social benefits. This will require

the effective application of higher standards of scientific and technical management of forest resources, concurrent with the formulation and implementation of market-based and economic policies (such as stumpage charges and concession fees) to ensure appropriate resource prices.

6. Second, in most countries the principal financial actor in forest production will be the private sector. In aggregate, the level of investments and activity of the private sector in forests far exceeds that of international and national public investments. To be successful, any strategy of reform or change in the forest sector must deal effectively with this fact.

7. Third, communities with high levels of dependence on forests — often poor and disadvantaged — are ubiquitous in many forest areas. There is an increasing global trend towards vesting ownership of forests with local communities. Effective involvement of these communities in decision-making on forest use and conservation, and their participation in the implementation of those decisions, and in the benefits that flow from them, are essential in resolving major problems of governance and equitable distribution of benefits, and in managing the resource sustainably over the long term.

8. Fourth, economy-wide policy reforms and activities in other sectors can have cross-sectoral impacts on forests even larger than those arising from activities within the sector. Broad reforms such as trade liberalization including removal of export controls can result in forest destruction if not accompanied by offsetting measures. The adverse impacts of agricultural subsidies in encouraging unwarranted land conversion are well known, for example. Thus, there is a need to ensure that forests are in the mainstream of overall development planning of any country; otherwise, adverse impacts on forests and forest-dependent people originating in other sectors will likely be left unaddressed.

9. The intergovernmental policy deliberations during the IPF/IFF process took into account these realities and challenges associated with forest resources. The key IPF/IFF proposals for action for promoting sustainable forest management relating to the economic aspects of forests have been grouped into four major areas of concern (see table). The description given below is neither negotiated text, nor an attempt to replace negotiated text; rather, it is intended to facilitate discussion of the many relevant IPF/IFF proposals for action. The report addresses those four major areas as well as the means of implementation and relevant common items as identified in the multi-year programme of work of the Forum.

Scope of action	Proposals for action from IPF*	Proposals for action from IFF*
Valuation and full-cost internalization of forest goods and services. Identify and value the full range of forest goods and services, develop and share valuation methods, explore ways to internalize all costs of products and resource use and measure externalities	89 (b), 104 (a), 104 (b), 58 (b) (v), 134 (a), 134 (b)	107 (a), 107 (b), 107 (c), 107 (d), 41 (c), 41 (d) 64 (h), 122 (f)
Economic and policy instruments to facilitate sustainable forest management. Develop and employ appropriate economic instruments and incentives to increase rent capture, and emphasize and encourage involvement of the private sector in producing forest benefits as well as develop and implement policies to ensure equitable distribution of those benefits. Encourage the development of macroeconomic policies and cross-sectoral policies that support and contribute to sustainable forest management	70 (b)	115 (a), 115 (b), 115 (c), 115 (d), 115 (e), 115 (f), 115 (g), 122 (b), 122 (d)
International trade and market access for forest products. Improve market access for forest goods and services, conduct market studies, consider the relationship among sustainable forest management, trade and voluntary certification, work on market transparency and share information on illegal trade as well as support local communities in capacity-building and facilitate their access to domestic and foreign markets.	128 (a), 128 (b), 128 (c), 131 (a), 131 (b), 132 (a), 132 (b), 133 (a), 133 (b), 133 (c), 133 (d), 133 (e), 133 (f), 133 (g), 135 (a), 135 (b)	41 (a), 41 (b), 41 (e), 41 (f), 41 (g), 64 (i)
Data and information on markets and prices. Improve market transparency, and data collection and information dissemination on prices of forest products and their substitutes, and review policies that have direct impact on prices and support sustainable forest management while discouraging overuse and inefficient manufacturing.		41 (e), 121 (d), 122 (e)

* As contained in the report of IPF on its fourth session (E/CN.17/1997/12); relevant subparagraphs specified below.

* As contained in the report of IFF on its fourth session (E/CN.17/2000/14); relevant subparagraphs specified below.

II. Implementation of the Intergovernmental Panel on Forests/Intergovernmental Forum on Forests (IPF/IFF) proposals for action and the plan of action of the United Nations Forum on Forests

A. Progress in implementation and emerging issues

1. Valuation and full-cost internalization of forest products and services

10. Since significant externalities and public goods are associated with forests, accurate valuation of forest goods and services is necessary for efficient resource allocation, welfare optimization and environmental accounting, and the IPF/IFF proposals for action have put a strong emphasis on this aspect of sustainable forest management. Statistics on the value of wood products are considered to be of good reliability and coverage, while the value of non-wood products is much more

difficult to capture. Many countries report problems with application of non-market valuation techniques. A significant body of scientific literature exists on increasingly sophisticated valuation techniques, and their empirical applications are on the increase, but there seems to be a need to improve their practical applicability and usefulness in decision-making.

11. Full-cost internalization is crucial when externalities are involved. If negative externalities are not taken into account and all the costs are not included, there can be significant and harmful overproduction or overuse of the resource. Measures like life cycle analysis of wood products have been gaining popularity, and environmental assessment of projects is ensured by law in many countries, thus increasing full-cost internalization in the wood production chain and in the use of forest resource and wood products.

2. Economic and policy instruments to facilitate sustainable forest management

12. *Rent capture*. Inadequate rent capture decreases government revenues, poses as a disguised subsidy and increases inefficiency. Low rent capture is typically an indication of improper accounting of forest resources and poor forest valuation. A lack of competition and information on international prices as well as complex capture procedures may also lead to low rent capture. Illegal activities associated with low rent capture reinforce wasteful logging, and inefficient resource allocation and hinder sustainable forest management.

13. Even though there have been attempts to increase rent capture, for example, through independent auditing of the revenue system as in Cameroon and Malawi, a recent World Bank estimate suggests that the failure to collect taxes and royalties from legal forest operations amounts to US$ 5 billion per annum worldwide. This is more than three times the level of official development assistance (ODA) financing for sustainable forest management.

14. Development of proper forest resource accounting and development of proper forest valuation systems are necessary measures towards improving rent capture, increasing efficiency, removing concealed subsidies and preventing windfall gains (see sect. A.1 above). Streamlining rent capture systems by sharing information and best practices as well as by disseminating reliable international price information can be furthered through international cooperation.

15. *Economic instruments for environmental protection*. Recent years have seen an increasing trend towards developing market-based instruments for environmental protection and production of ecosystem services. A survey suggests that, worldwide, there are close to 300 ongoing cases of actual and/or proposed payments for environmental services. Promising schemes — for example, tradable development rights in Brazil, payments for carbon, water and biodiversity in Costa Rica, conservation concessions to protect biodiversity in Guyana, and protection of the Catskill Mountains to conserve the water supply of New York City in the United States of America — are emerging at all levels.

16. The Kyoto Protocol[2] to the United Nations Framework Convention on Climate Change[3] and the Convention on Biological Diversity[4] have been instrumental in highlighting the issue of "payments for environmental services from forests" through the emphasis on the role of forests in sequestering carbon. Also, the Global Environment Facility (GEF), including its recently launched Operational Programme

for Integrated Ecosystem Management, offers opportunities to promote sustainable forest management by augmenting financial flows for ecosystem services.

17. In accordance with the "flexibility mechanisms" of the Kyoto Protocol, article 6 thereof allows for joint implementation of emissions reduction projects, whereas article 12 allows for project-based carbon offset trading between developed and developing countries under the Clean Development Mechanism. Three promising initiatives designed to support projects under these articles are: the Prototype Carbon Fund which provides a framework for action, learning and research to demonstrate how greenhouse gas emission-reduction transactions can contribute to sustainable development; the Community Development Carbon Fund, targeted towards rural communities in smaller, poorer countries and small island developing States, for the sequestration of greenhouse gases; and the BioCarbon Fund to provide carbon financing for projects that conserve or sequester greenhouse gases in forests, agro-ecosystems and other landscapes, in developing countries and transition economies.

18. *Impacts of economy wide and cross-sectoral policies.* Impacts on forests arising from activities within the sector may often be dwarfed by impacts (especially those that are adverse) arising from policies and projects initiated in other sectors, such as agriculture and rural development, infrastructure, mining, trade and power generation. Economy-wide reforms such as trade liberalization and removal of export controls, or the introduction of decentralized control over resource allocations, if made without appropriate safeguards, can also lead to overexploitation. Agricultural subsidies distort the value of forest land and can encourage unwarranted land conversion, and large infrastructure projects can directly destroy significant areas of forests, or provide access that, if left unmanaged, may lead to overexploitation or loss of forest resources.

19. Cross-sectoral impacts on forests and forest-dependent people will likely be addressed by mainstreaming forest concerns into the overall economic development policies of a country, and by incorporating cross-sectoral influences in national forest programmes. The "Strengthened Cross-sectoral Linkages between Forestry and other National Policies" programme of the Food and Agriculture Organization of the United Nations (FAO) is making progress in improving common understanding of the main issues and identification of practical solutions when impacts are adverse, establishing an informal international network of information and knowledge, and recommending priority actions at the national, regional and international levels. The new forest policy of the World Bank recognizes the importance of cross-sectoral impacts (especially those associated with adjustment lending operations) on forests and has initiated development of a pilot screening process to identify impacts of its adjustment operations on forests, and design appropriate measures where needed to mitigate the adverse impacts. Poverty Reduction Strategy Papers (PRSPs) are another important instrument with which to address cross-sectoral issues. However, so far only a few have explicitly incorporated the issue of forests, and there is a need to include forest concerns, to the widest extent possible, in those PRSPs that are under preparation. Also, national forest programmes provide an opportunity to explicitly consider the cross-sectoral impact on forests.

3. International trade and market access for forest products

20. A note by the Secretary-General on trade and sustainable forest management was prepared for the Forum's second session (see E/CN.18/2002/5). The present section recapitulates and updates the main messages of that report.

21. The global value of trade in forest products (roundwood, sawnwood, panels, pulp and paper) is currently US$ 133 billion, with paper products accounting for about half of the total. Historically, the value of trade in forest products has grown rapidly, although in recent years it has remained in the region of about US$ 130 billion-US$ 140 billion per year. Among non-wood forest products, the value of trade in bamboo and rattan was recently estimated to be at least US$ 2.9 billion per year and to be of particular importance to China and some South and South-East Asian countries.

22. Forest products exports account for less than 10 per cent of industrial roundwood production, while about 30 per cent of paper and paperboard produced is exported. However, international trade is concentrated in a few (mostly developed) regions. For example, in 1995, it was estimated that one third of international trade in forest products was between European countries, while trade flows between developing regions and from developing regions to developed regions were only about US$ 10 billion-US$ 20 billion per year or only 1-2 per cent of the total.

23. *Market access for forest products.* Market access for forest products has improved considerably in recent years as a result of the Uruguay Round of multilateral trade negotiations, which reduced tariffs and tariff escalation on forest products. However, non-tariff barriers such as restricting imports of so-called unsustainably produced forest products, especially at the subnational level, may affect market access for many forest products. Furthermore, consensus has yet to be reached on issues such as the removal of unilateral measures (for example, export bans imposed by producer countries and boycotts imposed in consumer countries) to the extent that they are inconsistent with international agreements.

24. The World Trade Organization, in agreeing for the first time to include trade and environment as a formal component of the negotiating agenda under the Ministerial Declaration of the Fourth Ministerial Conference of the World Trade Organization, held at Doha from 9 to 13 November 2001 (A/C.2/57/7, annex), has made a commitment to negotiate on the reduction — or, as appropriate, the elimination — of tariff and non-tariff barriers to environmental goods and services. To date, the World Trade Organization has no comprehensive definition of environmental goods. Given the strong consumer interest in sustainable timber and non-timber forest products, the Forum may wish to consider ways to work collaboratively with the World Trade Organization and other related organizations.

25. *Promoting the use of lesser-used species.* Promoting the use of lesser-used species can be a powerful way to increase the value of forest resources, reduce reliance on traditional species, put incomes into the hands of the poor, and foster sustainable forest management in general. This may involve products that have not previously been extensively used, and also products that have lost their markets to synthetic substitutes. Growing interest in natural products has produced emerging markets for some non-wood forest products, for example, medicinal products. Provided that functioning markets can be developed, a natural product, if it is competitivey priced and fulfils the requirements of customers, can also gain market

share. Also, the requirements for capital and technology in extraction and processing are usually rather low, providing income opportunities for poor, low-skilled labour.

26. *Certification*. As market-based tools to promote sustainable forest management and to promote trade in forest products from sustainably managed forest resources, voluntary certification of forest management and labelling of forest products have made considerable progress in recent years. To date, the area of forests certified under various schemes worldwide is estimated at about 130 million hectares, compared with a mere 5 million hectares in 1998. Of this, tropical forest countries account for about 10 million hectares.

27. However, the existence of a number of certification schemes calls for efforts towards their harmonization, and there are several ongoing processes aiming at compatibility of different schemes, such as the Mutual Recognition Framework. Ongoing certification initiatives with provisions for group certification and proposals for introducing stepwise or modular certification (to provide more time to achieve best practices) are especially important in enabling small and medium-sized enterprises and indigenous peoples producer groups to participate fully in certification schemes.

28. *Supporting local communities in accessing markets*. Involving local communities in the processing and marketing of forest products is seen as an important means of helping to ensure not only that the benefits of globalization and better access to international markets directly reach the relatively poor forest-dependent communities, but also that forests are managed for their full economic value. Well-functioning markets ranging from local village-level consumer markets to industrial and international markets can generate a more equitable distribution of forestry benefits within communities and families, and this is particularly true in the case of women. Local markets can be of high importance for income-generation, and measures should be developed to help local communities meet market demands in terms of quality and steady and sufficient supply.

29. A promising initiative is that of promoting certified shade-grown coffee, which is marketed worldwide in gourmet coffee and organic food shops. The Global Environment Facility is actively supporting these shade-grown coffee initiatives since they provide excellent habitats and biodiversity corridors and reduce the incentives to deforest. Another initiative (under the Maya Biosphere Reserve) supports community forest concessions where sustainably harvested timber is processed on-site to increase value added.

30. *Illegal trade in forest products*. The problem of illegal trade in forest products was raised at IPF, and has become predominant in various international forums in the last few years. Illegal harvest and trade of forest products often involve unsustainable forest practices, increase the cost of forest management and accentuate market failures. At the global level, the World Bank has estimated that the annual market value of losses from illegal cutting of forests exceeds US$ 10 billion, eight times the total ODA flows into sustainable forest management.

31. The East Asia Ministerial Conference on Forest Law Enforcement and Governance, held in Bali, Indonesia, in September 2001, addressed illegal logging, associated illegal trade, wildlife poaching and corruption. With a widely agreed to ministerial declaration,[3] the Bali Conference is promoting a cooperative solution to the problems in forest law enforcement and governance in the East Asia region. A

similar regional effort has been initiated in Africa, and one is expected to follow soon for Latin America and Europe. Some large timber-consuming countries have committed themselves to carrying out a careful examination of their forest legislation and forest law enforcement capacity with the objective of reducing incentives for illegal logging. In the private sector, several major companies involved in trade follow environmental management systems that ensure that timber originates from environmentally and socially benign sources. The European Union has been focusing on the issue of illegal trade in its member countries and working towards building collaborative approaches towards its containment. The recently initiated Forest Integrity Network of Transparency International is a global coalition of concerned stakeholders seeking ways to fight forest corruption via multi-stakeholder approaches. Finally, the Convention on International Trade in Endangered Species of Wild Fauna and Flora[6] is also helping to address the problem of illegal trade.

4. Data and information on markets and prices for forest products

32. Information on current and future expected prices for timber and timber products would facilitate investment decisions and contribute to increased efficiency of resource use. Timely and up-to-date information about markets is important in promoting development of markets for lesser-used species and other forest products and services. Transparent and timely information on market transactions will also help reduce corruption, tax evasion and speculation and support adequate rent collection.

33. Various countries regularly publish forest product market information, including *Maskayu*, a monthly bulletin published by the Malaysian Timber Industry Board; *STA Review*, published by the Sarawak Timber Association; *China Forest Products Market Information*; and the *Ghana Gazette*. The *ATIBT Newsletter* published by the International Technical Tropical Timber Association provides information on African exporters.

34. International organizations, most notably FAO, the International Tropical Timber Organization (ITTO) and the Economic Commission for Europe (ECE), provide extensive statistical information on production, trade and prices of forest products. For example, FAO has maintained a record of the forest products market since 1964, and that information is available both on paper and online. However, information on non-wood forest products resources, harvest, processing and trade is both scarce and scattered. The reason is that activities involving non-wood forest products often fall outside the scope of statistics, which makes it impossible to estimate the volume and value of the non-wood forest products sector in terms of trade. Thus, improving statistics related to non-wood forest products is another area for international action.

5. Emerging issues

35. The key emerging issues related to economic aspects of forests are shaped by two major international commitments: the Millennium Development Goals[7] identified at the Millennium Summit, and the Plan of Implementation of the World Summit on Sustainable Development (Johannesburg Plan of Implementation).[8] Both have a focus on reducing poverty, and both emphasize sustainable forest management as one of several approaches.

36. *The Millennium Development Goals*. The goal of poverty reduction, first among the Millennium Development Goals, has a clear link to the economic aspects of forests. Forests provide for full or partial subsistence needs for one fourth of the world's poor, and any actions directed towards increasing the earnings from forests will likely provide benefits to the rural poor living in or near forest-abundant areas. Thus, increasing and establishing access to the resource and defining stable, transferable ownership rights will help poor people diversify their livelihood strategies and, at the same time, encourage sustainable use of the resource. Similarly, the Millennium Development Goal on ensuring environmental sustainability (goal 7) has clear links to the economic aspects of forests, since ensuring sustainability of forests contributes to overall environmental stability.

37. *World Summit on Sustainable Development*. The World Summit on Sustainable Development, held in Johannesburg, South Africa, from 26 August to 4 September 2002, addressed and emphasized, among many other important issues, the role of sustainable forest management in overall sustainable development and, more specifically, in poverty eradication, improvement in food security, and access to safe drinking water and affordable energy. The proposed actions emphasize the role of institution-building, and partnerships among stakeholders, including Governments and the private sector, indigenous and local communities and non-governmental organizations, in moving towards sustainable forest management. The Summit called for enhanced political commitment to achieving sustainable forest management by endorsing it as a priority in the international political agenda, taking full account of the linkages between the forest sector and other sectors through integrated approaches; and emphasized the accelerated implementation of the IPF/IFF proposals for action by countries and by the Collaborative Partnership on Forests as a means of fostering sustainable forest management and poverty reduction.

38. Some of the critical issues for sustainable forest management emerging from the Millennium Summit and the World Summit on Sustainable Development that are relevant in the context of country implementation and international cooperation are described below.

39. *Poverty Reduction Strategy Papers and forests*. Among other initiatives, PRSPs have been recently endorsed by the World Bank and the International Monetary Fund (IMF) as being the country-owned and produced blueprint for setting the priorities for policy reforms and public expenditures, and for delivering international aid for poverty reduction. PRSPs have been strongly supported by regional development banks and bilateral donors which see these initiatives as an important instrument with which to harmonize and coordinate international aid efforts. Thus, a PRSP (and the associated aid and credit flows) can be a potentially powerful mechanism for promoting sustainable forest management.

40. In reality, however, the PRSP documents prepared to date give little consideration to sustainable forest management as a means of poverty alleviation. A recent study of 25 interim or full PRSPs in sub-Saharan African countries concluded that, while more than 80 per cent of the reports mentioned the forest sector, this was mostly cursory and the analysis of the cause and effect linkages between the forest sector and poverty was quite weak.

41. An important conclusion of the study was that systematic analyses (at the country level) on the relationship between forests and the reduction in poverty

(broadly defined to include income, health, security, empowerment etc.) were needed and should be incorporated into a PRSP so that the role of forests in poverty reduction could be properly assessed.

42. *Involving the private sector in sustainable forest management*. The private sector is an important player in forestry, in terms of investments, management, production and ownership. The private sector has a role in management of concessions, development of plantations and downstream processing of forest products.

43. In aggregate, the level of investments and activity of the private sector in forests far exceeds the level of investments and activity of the international community. In most countries, the principal financial actor in forest production will be the private sector; its involvement will be sometimes large-scale, sometimes small-scale and sometimes carried out in partnership with local communities.

44. Any strategy of reform or change in the sector needs to deal effectively with the private sector and create an investment climate that encourages the flow of environmentally and socially responsible private finances into forestry. For example, the new World Bank Forest Strategy suggests that this can be achieved by improving the economic and social efficiency of logging concessions, developing certification systems and codes of conduct, facilitating participation by small and medium-sized enterprises and indigenous communities, improving legislation regarding foreign direct investments, providing partial-risk guarantee schemes where appropriate etc.

45. Development of public-private partnerships is an important and emerging means of increasing the commitment of the private sector to sustainable forest management. Further, it is encouraging to note that the private sector is increasingly promoting consultation and decision-making through initiatives such as the Forum's multi-stakeholder dialogue, the CEOs Forum on Forests, the World Business Council for Sustainable Development's Sustainable Forest Products Industry programme and the International Council of Forest and Paper Associations. The International Finance Corporation (IFC) recently set up three new environmental facilities that wi'l support increased environmental and social sustainability by the private sector in emerging markets. Activities related to extraction, processing and marketing of forest products and services are likely to form a significant part of its portfolio. However it seems that much more needs to be done at the level of the individual country.

46. *Role of local communities in promoting sustainable forest management*. The Johannesburg Plan of Implementation emphasizes the importance of partnering with indigenous and local communities as a means of fostering sustainable forest management. Local users and forest-dependent communities are key stakeholders that benefit directly from the resource and are expected to have a strong interest in its conservation and sustainable use. Community management of forests has proved to be effective in countries as diverse as India, Mexico, Nepal, the Philippines and the United Republic of Tanzania, for example. These initiatives have not only led to significant increases in incomes and economic surpluses, but often improved social indicators related to the status of women, resulted in better nutrition for girl children, and helped to improve governance and control of illegal logging and other unlawful activities.

47. In light of these positive experiences, there is increasing interest on the part of Governments in either handing over or sharing the management of forest resources with user communities. It is also expected that the role of user communities will continue and even accelerate along with the general move towards decentralization and the general devolution of fiscal and managerial responsibility to local levels of government. However, there is a need to foster more effective involvement of communities in decision-making on forest use and conservation, and their participation in implementation. This would also increase their share of the benefit flow and provide them with the technical expertise required for sustainable management of the resource. National forest programmes have been making promising progress in this regard (see sect. C.3).

48. *Subsidies and their impact on deforestation and forest degradation*. The Forum at its second session invited countries and the members of the Collaborative Partnership on Forests to review and report on the state of knowledge on subsidies that may result in deforestation and forest degradation.

49. Perverse subsidies (both explicit and implicit) are prevalent in tropical and temperate forests in both developing and developed countries and have recently been estimated to amount to about US$ 14 billion per year (including US$ 4 billion estimated for tropical areas alone). Implicit (or concealed) subsidies can accrue to loggers and processors owing to low stumpage prices arising from inefficient rent collection and artificially depressed log prices as a result of trade restrictions. A common example of an explicit subsidy in forestry is financial support for reforestation, which may, if it is not well designed, encourage deforestation. Subsidies in other sectors can have harmful effects on forests as well. Agricultural subsidies to crops, plantations and cattle-ranching, for example, reduce the relative profitability of forest stands and have the demonstrated impact of accelerating deforestation. Also, some income subsidies for relocation encourage transmigration into forested areas, and often induce land conversion and deforestation.

50. Removal of perverse subsidies will likely improve the climate for sustainable forest management and trim unnecessary expenditures from the public budget. The Doha round of trade negotiations offers the opportunity of reducing agricultural subsidies across the board in both developing and developed countries. However, reducing perverse subsidies originating in the forest sector has proved to be a difficult challenge because of vested group interests. Nevertheless, given their potentially large adverse impacts, this should be an important area for future scrutiny, analytical clarification and action.

B. Means of implementation

51. The present section reviews the status of finance, transfer of environmentally sound technologies and capacity-building as means of implementation of IPF/IFF proposals for action in the context of economic aspects of forests.

1. Finance

52. Global investment trends indicate that the volume of ODA financing is at a level of about US$ 1.5 billion and may rise to US$ 1.75-US$ 2 billion, but will still be in significant shortfall in respect of the figure of US$ 5.67 billion estimated by the United Nations Conference on Environment and Development. Direct public

sector investments in forestry (though still a fairly large proportion of the total) are generally on a declining trend in most countries. Moreover, though private sector investments (both domestic and foreign direct investments) in forests are on the increase, this investment is targeted at a relatively small number of countries.

53. A long-term strategy to meet financing requirements for sustainable forest management, therefore, is to encourage *responsible* private investment flows into the forest sector by creating a favourable climate for such investments. At the same time, investments leading to poor management or use of illegally sourced timber should be discouraged. This can be done by addressing issues such as poor legislative and policy frameworks, inefficient institutions, excessive regulation, corruption, and unstable macroeconomic regimes. In addition, there is a need to develop a wide range of innovative financing and incentive mechanisms to give the private sector more investment options.

54. In order to avoid underproduction of public goods, collective actions are called for in developing and putting into effect market-based tools to foster the private provision of public goods. This can be done through public-private partnerships. However, the private sector may not always be in a position to provide for the sustainable production of public goods, and the role of public funding will remain important.

2. Transfer of environmentally sound technologies

55. Some of the needs identified in national reports to the Forum include forest valuation methodologies, approaches to capture rent, payment mechanisms for environmental services of forests, database systems, and silvicultural and forest management techniques that enhance the economic value of forest resources without compromising their ecological and social benefits. Countries, development agencies and research institutions have been instrumental in developing such knowledge and technology and sharing them with the needy countries. Technology issues are defined not just as engineering approaches but more broadly, as reflected in the IPF/IFF proposals for action.

56. While many of the multilateral development banks and bilateral donors are promoting technology transfer through their individual projects, much more can be done. In particular, development banks and bilateral agencies can help by encouraging the development of appropriate knowledge and technology suitably adapted to the special circumstances of developing countries, facilitating transfer technology from one developing country to another, and encouraging Governments to enact appropriate regulations that would encourage the adoption of the available environmentally sound technologies in future. The Consultative Group on International Agricultural Research (CGIAR), including the Centre for International Forestry Research (CIFOR) and the World Agroforestry Centre, have an initiative to support technology transfer.

3. Capacity-building

57. Several IPF/IFF proposals for action recognize the underpinning role of capacity-building and institutional development in promoting sustainable forest management. Development agencies and technical assistance agencies such as the World Bank, the Asian Development Bank, FAO and the Centre for International Forestry Research have been actively engaged in helping countries to mainstream

forests into their overall development strategies. In addition, analytical work and capacity-building related to total economic valuation of forest services have been a major thrust area over the last five to seven years. This has included a more holistic consideration of the problem, moving beyond simple economic valuation into the financial, social and legislative aspects as well.

58. At the same time, there are ongoing initiatives to organize international and regional training and capacity-building programmes and establish professional networks to disseminate "best-practice" experiences from all over the world. Illustrative examples are: the Economy and Environment Program for Southeast Asia (EEPSEA), the Katoomba process on forest valuation, the forests and biodiversity use and conservation programme of the World Bank Institute, the South Asian Network for Development and Environmental Economics and the forest valuation initiative of FAO, among others.

59. The result of these efforts has been to build up significant local capacity and lay a strong foundation for incorporating forest sector concerns into overall economic planning. The future prognosis looks favourable, and the Forum is envisaged as having a particularly important role in giving strategic direction, in catalysing partnership approaches among different stakeholders, and in building professional networks to facilitate information-sharing.

C. Common items

1. Monitoring, assessment and reporting

60. Inadequate attention to monitoring, assessment and reporting of successes and constraints in sustainable forest management has limited the possibilities of learning from them. In the context of the economic aspects of forests, this is especially true in the case of developing markets for environmental services.

61. A proposed ad hoc expert group on monitoring, assessment and reporting will be addressing the issue of reporting to the Forum, and it is important to point out that some ongoing and planned activities will begin to fill in the gaps in respect of the economic aspects of forests. These include: enhancing the development and use of criteria and indicators for sustainable forest management through collaboration by FAO, ITTO, the United Nations Environment Programme (UNEP) and CIFOR; a collaborative effort led by the International Union of Forest Research Organizations (IUFRO) in developing a uniform system for accessing and sharing forest information worldwide called the Global Forest Information Service (GFIS), and related efforts in the collection and management of information on forest resources undertaken by FAO, in collaboration with other partners.

2. Promoting public participation

62. Multiple benefits of forests accrue to many stakeholders. This raises the issue of managing trade-offs among the benefits, and of balancing the interests of various stakeholders. The participation of major economic players such as the private sector is very important with respect to enhancing the economic aspects of forests in a way conducive to promoting sustainable forest management. Broad stakeholder participation helps to promote sustainable forest management by fully utilizing local knowledge and capabilities, managing social conflicts, and ensuring the equitable

sharing of benefits. There is general consensus that ensuring wide-based participation of various stakeholder groups in planning, implementation and management, and monitoring outcomes is a very important component of ensuring sustainable forest management.

63. In overall terms, the trend seems to be towards participation and involvement of all interested stakeholders in discussions and decisions related to forest management, at both the national and international levels (via the national forest programmes, for example; see sect. C.3 below). However, participation of indigenous people and women, for example, continues to be an issue. Participation of stakeholders in project implementation is also relatively weak. Since participation is simultaneously supporting both sustainable forest management and poverty reduction, the challenge is to continually scale up the efforts.

64. One important element fostering public participation is an efficient land tenure system and access to forest resources, which provide an economic incentive for sustainable forest management. Well-defined and transferable property rights have been seen to promote efficient utilization of forest resources. In terms of distribution of forest benefits, addressing the issues of access of communities and families to the resource, and gender mainstreaming with respect to such access, is crucial for the full and efficient utilization of wood and non-wood forest products. Imposition of fees and royalties on the harvesting of (especially) non-wood forest products may make them unavailable to the poor, and also encourage illegal harvesting. Thus, legislative reforms related to forest utilization should be consultative and should recognize impacts on poverty alleviation.

3. National forest programmes

65. Economic aspects of forests are well reflected in national forest programmes. The proposals for actions concerning national forest programmes have an important role to play in strengthening economic instruments and tax policies to promote sustainable forest management. Policies and mechanisms to secure land tenure, promote benefit-sharing and recognize access to and use of forest resources by local communities contribute directly to equitable distribution of forest benefits and the role of forests in poverty reduction, among other things.

66. According to a recent assessment by FAO, there is a growing trend towards the adoption by countries of the principles for national forest programmes, and more progressive and participatory policies and planning. The FAO assessment also suggests that significant challenges remain to be addressed, such as gaining high-level political commitment, improving linkages with the broader agenda for poverty reduction in order to secure adequate financing for the national forest programmes, making effective use of knowledge and information through systematic efforts at capacity-building, involving the private sector as a technical and financial contributor, and addressing governance issues, particularly in the context of decentralization and devolution.

67. The role played by external entities, such as the National Forest Programme Facility coordinated by FAO, in promoting participatory processes and community-based forest management is making a positive contribution. The National Forest Programme Facility has already initiated support for promoting community management efforts in several countries.

4. Enabling environment and foreign investments in the forest sector

68. The preceding sections have highlighted the need for policy reforms both within the forest sector and outside it so as to foster sustainable forest management. Thus, building up a strong enabling environment requires attention, inter alia, to issues of improving governance and transparency both in the sector and in the overall economy, ensuring complementary macroeconomic policies related to promoting investments, streamlining taxes and liberalizing trade, and prioritizing forest issues in overall development planning. It is encouraging that national Governments and international agencies have directed their efforts towards bringing about complementary reforms in these areas, and these should be stepped up further.

69. In the context of the impact of globalization on forests, the issue of foreign investments in the sector also becomes important. The current pattern of foreign investments is concentrated much more in downstream processing (plywood, pulp and paper, furniture etc.) than in ownership of concessions or plantations. With an increasing trend towards privatization, and liberalization of rules pertaining to foreign investments, the possibility exists for significant increases in investment flows overall, and for ownership of concessions and plantations in particular. These investments are desirable to the extent that, in addition to creating employment and generating income, they also bring about an inflow of technological upgrading, improved management skills etc. However, if not managed with appropriately designed standards, for example, these investments could lead to unsustainable exploitation of the resource.

III. Conclusions

70. **A range of issues related to economic aspects of forests are of critical importance to countries' efforts to achieve sustainable forest management.**

71. **Economy-wide policy reforms and activities in sectors other than the forest sector can have impacts on forests, which can be even more significant than those from activities within the sector. For example, trade liberalization and agricultural subsidies were mentioned among the issues that may have impacts on the forest sector, and should be taken into consideration in policy formulation. Thus, forests should be in the mainstream of overall development planning for a country; otherwise, the potentially adverse impacts on forests and forest-dependent people originating in other sectors would likely be left unaddressed. In this regard, PRSPs and national forest programmes are promising tools.**

72. **The private sector is a significant — and often the principal — financial actor in forest production, and present global trends indicate that its future importance will increase. Policy reforms must encourage environmentally and socially responsible private investments. The positive incentives need to be supplemented by disincentives to prevent undesirable investments. This indicates that the role of the public sector, while evolving, will continue to be important in creating an enabling environment for the private sector.**

73. **Local users, forest-dependent peoples and communities are key stakeholders with a strong interest in management, conservation and sustainable development of forests. In future, there is a need to foster stronger**

community management of forests and more effective involvement of these communities in actual or usufruct ownership, in decision-making on forest management, and in the implementation of decisions.

74. **Collaborative approaches at the national, regional and international levels are necessary to foster sustainable forest management. This is especially the case in the context of globalization, and the need for international collaboration and development of partnerships, including North-South and South-South networks.**

IV. Points for discussion

75. **The Forum may wish to:**

(a) **Urge countries to integrate sustainable forest management into their overall economic development and poverty reduction strategies, especially through their PRSPs and national forest programme processes;**

(b) **Urge countries to encourage responsible private sector investments by developing an appropriate system of incentives, including policies to ensure that their timber is produced in an environmentally and socially responsible manner;**

(c) **Urge countries to take appropriate measure to increase rent capture from forest resource utilization and to ensure necessary reinvestment in sustainable forest management;**

(d) **Invite the member organizations of the Collaborative Partnership on Forests to support activities designed to assist countries in their efforts to achieve full-cost internalization of the production chain and use of wood products and their non-wood substitutes, and in developing payment mechanisms for environmental services of forests;**

(e) **Call upon countries to undertake a careful examination of the state of governance, forest law enforcement capacity, and forest legislation and regulations, with the objective of reducing illegal practices, as well as to take stricter measures to guard against the purchase of illegally produced timber;**

(f) **Encourage countries to continue enhancing market access for forest products and services by removing tariff and non-tariff barriers to trade in ways that simultaneously promote trade and sustainable forest management;**

(g) **Urge countries to promote regional and international collaboration for sustainable forest management, especially by taking advantage of the opportunities provided by the Doha round of trade negotiations, the Millennium Development Goals and the Plan of Implementation of the World Summit on Sustainable Development;**

(h) **Urge countries to foster greater involvement of local communities and indigenous groups in decision-making on and implementation of forest management, and encourage countries to support actions such as fiscal and administrative decentralization, broad-based participation and clarification of ownership rights;**

(i) Urge countries and relevant organizations to further improve the systems of collection and timely dissemination of information on production, consumption, trade and prices of forest products and their substitutes so as to promote market transparency.

Notes

[1] See *Official Records of the Economic and Social Council, 2001, Supplement No. 22* (E/2001/42/Rev.1), part two, chap. I, sect. B, resolution 1/1, para. 4 (b).

[2] FCCC/CP/1997/7/Add.1, decision 1/CP.3, annex.

[3] United Nations, *Treaty Series*, vol. 1771, No. 30822.

[4] Ibid., vol. 1760, No. 30619.

[5] Available on the Internet (http://lnweb18.worldbank.org/eap/eap.nsf/Attachments/FLEG_S9-2/$File/9+2+Ministerial+Declaration+-+FLEG.pdf). Accessed on 10 April 2003.

[6] United Nations, *Treaty Series*, vol. 993, No. 14537.

[7] See General Assembly resolution 55/2; also A/56/326, annex.

[8] *Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002* (United Nations publication, Sales No. E.03.II.A.1), chap. I, resolution 2, annex.